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TAGS: [ECON](#) [PGOV](#) [VE](#)
SUBJECT: LEVIATHAN'S RETURN: CHAVEZ'S NEW ECONOMIC
BUREAUCRACIES

Classified By: Economic Counselor Richard M. Sanders. Reasons: 1.5 (b)
) and (d).

Summary

1. (C) With his pockets full of petro-dollars, Chavez has created new Ministries of Food, Housing, Popular Economy, and Development Finance. He is also moving forward with the creation of a new state airline and a telecommunications enterprise. The establishment of the Ministries of Food and Housing appear to be aimed at providing an additional impulse and a stronger institutional base for signature oil-funded GOV anti-poverty programs. The Popular Economy and Development Finance Ministries reflect the Bolivarian government's belief in stimulating growth (and obtaining political dividends) through directed state credits, especially to cooperatives. The new aviation and telecoms enterprises are a throwback to 1950's vintage Latin American state capitalism. End summary.

Ministry of Food) Building on a Popular Program

2. (C) In September, President Chavez announced the creation of a new Ministry of Food ("Alimentacion") which will have as its principal function the administration of the GOV's "Mercal" network of subsidized food markets for low income consumers. Mercal had previously been a free-standing program, run by the military, with technical support from the Ministry of Agriculture. The new Ministry of Food will also take over the operations of the Agricultural Supply and Services Corporation ("CASA,"), an existing para-statal corporation previously reporting to the Ministry of Agriculture. It had originally existed to operate state-owned silos and other food storage facilities, but under Chavez had become a purchasing agency for the imports required to fill the Mercal shelves. The Ministry will also have responsibility for the Strategic Food Program ("PROAL"), a military-run program which distributes free food baskets and maintains soup kitchens for the neediest. The new minister is General Jose Rafael Oropeza, who had previously served as head of the Mercal program.

3. (C) Tomas Socias, chief of governmental relations for agri-business giant Cargill, told econcouns that the Ministry's creation of the Ministry of Food was an effort to improve coordination in a program that has become crucial to the GOV's overall anti-poverty strategy and key to the rise in Chavez's political fortunes over the last year. Socias added that there had been constant in-fighting between CASA and Mercal management as well as consistent reports of corruption. That said, however, he noted that Mercal and CASA programs have already moved far beyond their initial improvised aspect. He had visited the Ministry's offices (formerly Mercal's), which had an elaborate, bustling operations center, and a large staff, with several Cubans present. (Cuban state food purchasing agency Alimport has had a close relationship with Mercal and CASA). The Mercal program, with more than 200 retail stores, plus a network of smaller "Mercalitos" run out of individual homes and corner stores, may be supplying 20-30 pct of national demand in some sectors such as cooking oil.

Ministry of Housing) Re-starting a Shut-Down Sector

4. (C) At the same time as he announced the creation of the Ministry of Food, Chavez also unveiled a new Ministry of Housing, which would have responsibility for overseeing the existing National Housing Institute (INAVI), as well as the Urban Development Fund (FONDUR). The former is roughly the equivalent of the U.S. Federal Housing Authority, providing funding to commercial banks to support mortgage lending. The latter has directly constructed low-income housing. Both

previously reported to the Ministry of Infrastructure, which also covers transportation, telecommunications and public works. Chavez nominated as Minister Julio Montes, a

long-time Chavez confidant who had served as Minister of Infrastructure, Ambassador to Cuba and Presidential chief of staff. (In none of these positions was he considered an especially strong figure.) The Housing Ministry will be a "ministry of state," enjoying a lesser status than a full-scale ministry.

15. (C) What the new ministry will accomplish is unclear. The Chavez administration has admitted that it has been slow to resolve the "housing deficit" of 1.6 million dwellings that the country requires. According to one private sector analyst, during the period of 1999-2003 an average of 20,000 new homes were built per year, compared with 60,000 per year during the period of 1994-1998. The Ministry will have the advantage of counting on resources from state oil company PDVSA, which has already staked out housing as one of the areas in which, through its Venezuelan Petroleum Corporation (CVP) subsidiary, it is engaged in "social investment." Coordinating the Ministry's and PDVSA's activities in this area will be an important challenge.

16. (C) The creation of the Ministry has been hailed by the Venezuelan Construction Chamber, the building industry's trade association (historically one of the less militantly anti-Chavez business groups). Chamber President Alvaro Sucre told econcouns that he saw the creation of the Ministry as an effort to revive the one sector, construction, which has failed to participate in the recovery that the partial return of oil production, together with high prices, has encouraged elsewhere, and he was hopeful that important new resources would be dedicated to the sector. The president of large commercial bank BANESCO was less optimistic, telling econcouns that, when representatives of the Banking Association had met with Chavez, discussion had centered on revitalizing lending for housing, and the banks had submitted their own plans for this sector. However, he was convinced that the GOV would take the plans, and use them to design its own mechanisms which would channel housing finance through state-owned institutions, shutting the private banks out.

Two More Ministries) The Lending Window is Open

17. (C) Chavez also re-organized the ministerial responsibilities for a range of state banks and institutes which lend money for non-housing-related development purposes. Previously the range of institutions running credit programs, large and small, had reported to Nelson Merentes, Minister of Social Economy, and, more importantly, head of the large National Bank for Economic and Social Development (BANDES). However, the smaller programs dedicated to micro-enterprise, i.e., the Bank of the Sovereign People, the Women's Bank, and the Micro-financial Development Fund, will now report to a new "Ministry of Popular Economy," as will the National Job Training Institute (INCE), previously located within the Ministry of Education, and the Superintendency of Cooperatives (previously found in the Ministry of Education).

18. (C) The new Ministry of Popular Economy (a "ministry of state" rather than a full ministry), will be headed by Elias Jaua, a former student radical, who is currently "Director of Ideology" for the Fifth Republic Movement (MVR), the principal pro-Chavez political party. He also currently serves as head of the "Inter-governmental Decentralization Fund," a GOV entity which distributes funds to the states, separate from constitutionally mandated revenue sharing. He briefly served as Chavez's chief of staff. (Comment: As head of the Ministry of Popular Economy, he will be well placed to promote a key ideological and political interest of the GOV -- the promotion of cooperatives of small farmers and artisans, as an alternative to a less desirable mode of production -- the medium- or large-scale business or ranch run by the garden-variety capitalist. The cooperative sector, ever dependent on GOV credit, of course, also provides a new political clientele with its interests tied directly to the Bolivarian government. End comment.)

19. (C) While the Ministry of Social Economy will disappear, Merentes, however, will continue to hold ministerial rank, as Minister for Development Financing, a position in which BANDES and other larger state financial entities such as the Industrial Bank of Venezuela (the state-owned commercial bank), and the Bank for Andean Regional Development (BANFOANDES) will report to him. This ministry too will be a ministry of state. (Note: Merentes, who served as Minister of Finance before being forced to resign in a shake-up

following a scandal relating to the transfer of funds from the GOV's Macro-economic Stabilization Fund to the ministry,s budget, remains a person of substance within the GOV, all the more so as he had an important role in the organization of Chavez's successful campaign to defeat the recall referendum. End note.)

CONVIASA -- Flying the Bolivarian Skies

10. (C) The GOV has established a new, state-owned passenger airline - CONVIASA (Venezuelan Consortium of Aviation Industries and Services). Its name deliberately evokes that of VIASA, once Venezuela's leading airline, which had originally been founded by private investors, but which had taken over by the GOV (under President Caldera), run into the ground, partially sold off to Spanish carrier Iberia, and ultimately closed down. CONVIASA is headed by Minister of Production and Commerce Wilmer Castro, a former Air Force officer who participated in Chavez's failed 1992 coup, who after Chavez took office in 1998 served briefly as president of a small bankrupt air carrier which the GOV had taken over, and then as Vice Minister for Tourism.

11. (C) CONVIASA, which is supposed to be in the air by December 2004, has as of now, one aircraft, a 47 seat Dash 7, provided in trust by the Navy, which, we understand had been largely used in the past to transport senior officers and their families to tourist destinations within Venezuela. CONVIASA reportedly has been in conversations with Airbus and General Electric Capital Aviation Services (GECAS) about renting other craft. The first route is expected to be between Caracas and Margarita. Grand plans outlined in the press include eventual flights to foreign destinations in the Caribbean, the Andes, and elsewhere in South America, as well as the U.S. and Europe. The 2004 budget includes USD 20 million for the state firm's operations, and USD 8.3 million reportedly is coming from the off-budget social infrastructure fund created from earnings from PDVSA.

CVG Telecom - GOV As Cable Guy

12. (C) As in civil aviation, the GOV is looking to return to another "strategic" industry - telecommunications - through the "Corporacion Venezolana de Guayana" (CVG), the steel, aluminum, and electricity generation para-statal based in eastern Venezuela. A new entity, "CVG Telecomunicaciones," has been created with the ultimate aim of providing an alternative to CANTV, the former state-owned telecoms carrier, now privatized (29 pct owned by U.S. company Verizon). CVG Telecom's principal asset is the 5000 kilometers of right-of-way suitable for fiber optic cable which its subsidiary, electricity generator and transmitter EDELCA owns. CVG's secretary general told econcouns that CVG Telecom would partner with an international telephone company which would provide needed capital and technology. Expanding telephone services to underserved rural areas would be an important part of the new entity's mission, he added.

13. (C) Our private sector contacts are skeptical about the prospects for CVG Telecom. They note that CANTV's privatization has led to enormous improvements from the extremely poor level of service which the firm had provided when it was state-owned, and see a new state corporation as a step back. Ricardo Baquero, President of CASATEL, the telecommunications industry association, suggested that CVG Telecom would have an unfair advantage; while there was nothing in Venezuelan law which prevented it from being set up, it would inevitably use CVG's resources and

legal/political clout to obtain market share. Billionaire Oswaldo Cisneros, who holds a minority interest in cellular provider TELCEL, was more sanguine. Only 1228 kilometers of fiber-optic cable was already laid on EDELCA rights of way, "leading from one unpopulated location to another," he told econcouns. He suggested it would be a long time before CVG Telecom provided any meaningful competition. For its part, CANTV has maintained a rigorous silence on the issue of the new para-statal.

Comment - Back to the Future

14. (C) The creation of new ministries and state corporations obeys the usual mix of ideological and straightforwardly political motives that dominate so much of the Chavez government's economic decision-making. The creation of a Ministry of Popular Economy oriented towards cooperatives is a perfect example. And the re-creation of state telecoms and aviation enterprises is a return to the vision of 50 years ago when it was held that the "commanding heights" of the economy had to be in state hands to assure

their rational development. We also suspect a continuing concern within the GOV about having these strategic sectors largely in the hands of foreign (American) firms. As for the creation of the Ministries of Food and Housing, here there may be a simple recognition of necessity. Having identified these as key areas in which Chavez is supposed to be providing his low-income constituency with significant benefits, aided by the oil bonanza, he has chosen that tried and true remedy of chief executives the world over) create a new bureaucracy.

14. (C) Of course, this is Venezuela, and a considerable deflator must be applied to either the benefits or the damage to be done by these new ministries and state corporations. Our aviation and telecommunications contacts seem unimpressed by the threat posed by CONVIASA and CVG Telecom, which will require huge injections of capital if they are to become viable. The cooperatives that the Ministry of Popular Economy is sponsoring still are far from challenging the private sector in most areas of the economy. The Ministry of Food's Mercal program, which indeed is challenging normal distribution channels, and any future initiatives of the Ministry of Housing are entirely dependent upon petroleum money staying available. As of now, Chavez's new economic ministries are more an inefficient overlay on Venezuela's unsuccessful economy than a major transformation.

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